

June  
2022

الجزيرة كابيتال

ALJAZIRA CAPITAL الجزيرة للأسواق المالية



# Oil & Petrochemicals Monthly Report - May 22

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## Urea, acetic acid and PVC prices dropped, EVA prices advanced in May; Aramco slashed propane and butane prices for June

- **Naphtha, propane, and butane declined:** Prices of naphtha decreased 1.7% M/M to USD 880 per ton in May. Propane and butane prices fell 9.6% and 10.4% to USD 850 per ton and USD 860 per ton, respectively. Aramco slashed propane and butane prices for June for second consecutive month to USD 750 per ton each.
- **End products prices declined; basic and intermediates were directionless:** Urea prices plunged 21.7% M/M to USD 685 per ton in May due to a lack of demand apart from India and higher supplies from Russia and Nigeria. Ethylene and propylene prices dropped 13.4% M/M each to USD 1,100 per ton and USD 1,030 per ton, respectively, impacted by weaker demand from downstream products. PVC prices were down 11.2% M/M to 1,190 per ton amid sluggish demand sentiments. Acetic acid prices declined 11.0% to USD 730 per ton amid buoyant supply and relatively lower downstream demand. EVA prices rose 8.2% to USD 3,085 per ton due to higher feedstock VAM (+5.7% M/M to USD 2,430 per ton) prices on account of supply issues amid outages in the US.
- **Petchem Spreads Trend:** PP-propane spread expanded to USD 312 per ton in May from USD 251 per ton in April. In May, PP-butane spread jumped to USD 302 per ton from USD 231 per ton in April. HDPE-naphtha spread decreased to USD 282 per ton in May as against USD 330 per ton in April.

## EU negotiations to ban Russian oil, expectations of higher demand ahead of start of the US driving season boosted crude oil prices in May

- **Crude oil rebounds:** Oil prices rebounded in May on expectations of tighter supply, and the European Union negotiated banning Russian oil in phased manner. Anticipated higher demand during the US summer driving season also supported crude oil prices. Additionally, easing COVID-19 restrictions in China helped regaining demand optimism. However, US recession concerns limited the increase in crude oil prices.  
  
Brent prices jumped 9.2% M/M, while WTI surged 9.9% M/M in May, ending at USD 119.4/bbl and USD 115.1/bbl, respectively. The Brent-WTI spread contracted to USD 4.4/bbl in May from USD 4.7/bbl in April. Natural gas prices at Henry Hub surged 20.5% M/M to USD 8.7/mn Btu.
- **US manufacturing activity improved, slowed in Eurozone, continues to contract in China:** US manufacturing PMI rose unexpectedly to 56.1 in May from 55.4 in April, as new orders and production increased amid easing of supply shortages. China's Caixin manufacturing PMI increased to 48.1 from 46.0 but remained in the contraction zone for the third consecutive month as production reduced at slower space. Eurozone manufacturing PMI declined to 54.6 in May versus 55.5 in April, weighed down by tighter supply, inflationary pressure, and weaker demand.

Table 1: Petchem Prices – May FY22

Name	Price (USD per ton)	M/M %	Q/Q %	Y/Y %	YTD %
Naphtha	880	-1.7%	-3.3%	43.1%	23.9%
Saudi Propane	850	-9.6%	9.7%	71.7%	6.9%
Butane-Saudi	860	-10.4%	11.0%	81.1%	14.7%
Ethylene	1,100	-13.4%	-7.6%	10.0%	10.6%
Propylene-Asia	1,030	-13.4%	-14.9%	-2.4%	6.7%
HDPE	1,130	-8.9%	-11.7%	6.6%	-0.9%
LDPE	1,430	-7.1%	-10.6%	14.4%	-0.7%
LLDPE	1,130	-8.1%	-11.7%	9.2%	-1.7%
PP-Asia	1,110	-7.5%	-5.5%	-2.2%	0.5%
Styrene-Asia	1,385	1.5%	11.7%	15.9%	25.3%
Polystyrene-Asia	1,445	-3.7%	-0.3%	-3.0%	7.0%
PET - Asia	1,290	5.7%	12.2%	37.2%	24.0%
PVC-Asia	1,190	-11.2%	-8.5%	-12.2%	-10.5%
MEG (Asia)	605	-6.9%	-6.9%	-7.6%	-4.7%
Methanol-China	345	-9.2%	-5.5%	9.5%	11.3%
DAP-Gulf	1,000	2.6%	11.7%	94.2%	12.4%
Urea-Gulf	685	-21.7%	22.3%	77.9%	-20.8%
Ammonia-Gulf	975	0.0%	15.4%	95.0%	14.7%
MTBE-Asia	1,220	7.5%	19.6%	66.0%	50.6%
EDC	640	-7.9%	-23.4%	-6.6%	-30.8%
MEG (SABIC)	1,030	0.0%	9.6%	19.8%	10.8%
PC	2,650	-7.0%	-10.6%	-28.4%	-0.9%
Acetic Acid-AA	730	-11.0%	8.1%	-30.5%	-15.6%
EVA	3,085	8.2%	29.6%	20.7%	27.5%
Vinyl Acetate Monomer-VAM	2,430	5.7%	18.5%	30.6%	0.2%

Note: Prices as of May 29, 2022

Source: Argaam, Reuters Eikon, AlJazira Capital Research

Table 2: Economic Calendar

Date	Country	Event
June 02,08,15,23,29	US	Weekly Petroleum Status Report
5-Jun	KSA	S&P Global Saudi Arabia PMI
7-Jun	US	Trade Balance
7-Jun		EIA Short-term Energy Outlook
9-Jun	US	Initial Jobless Claims
10-Jun	US	Monthly Budget Statement
14-Jun		OPEC Monthly Oil Market Report
14-Jun	KSA	GDP Constant Prices YoY
15-Jun		IEA Oil Market Report
15-Jun	KSA	CPI YoY
27-Jun	KSA	Current Account Balance
28-Jun	KSA	M3 Money Supply YoY
28-Jun	KSA	SAMA Net Foreign Assets SAR
29-Jun	US	GDP Annualized QoQ
8-Jul	US	Unemployment Rate

Source: Bloomberg, IEA, EIA, OPEC

## Key comments from international energy agencies

### Crude oil supply

#### Global supply

- Global oil supply decreased by 710,000 bpd to 98.1 mbpd in April, according to IEA.
- Global supplies of crude oil and liquid fuels are expected to rise by 4.3 mbpd to 99.9 mbpd in FY22 and by 1.7 mbpd to 101.6 mbpd in FY23, as per EIA. Non-OPEC supply is forecast to grow 1.5 mbpd to 65.4 mbpd in FY22 and 1.1 mbpd to 66.6 mbpd in FY23.
- Global refining throughputs fell 1.4 mbpd to 78.0 mbpd in April (lowest since May 2021), as per IEA. From May to August, throughputs are estimated to rise by 4.7 mbpd. However, product markets are expected to witness continued tightness.

#### OPEC Supply

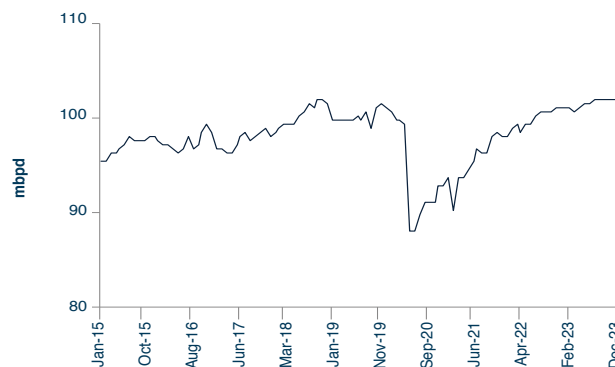
- OPEC crude oil production rose 153,000 bpd M/M in April to an average at 28.7 mbpd, as per OPEC's secondary sources.
- On average, OPEC members produced 28.2 mbpd of crude oil in Q1-22 compared to 27.7 mbpd in Q4-21, as per EIA. The agency forecasts OPEC crude oil production to increase to 28.6 mbpd in Q2-22.
- OPEC's average crude production is estimated at 28.8 mbpd in FY22 and at 29.4 mbpd in FY23, according to EIA.
- OPEC's unplanned oil supply disruptions averaged 2.10 mbpd in April (versus average of 1.99 for March), as per EIA.

**Table 3: OPEC Monthly Oil Production**

Prod. ('000bpd)	Cap.	Feb	Mar	Apr	May	% M/M Chg.
Equatorial Guinea	120	100	100	110	90	-18.2%
Gabon	220	180	180	200	220	10.0%
Republic of Congo	300	260	270	270	260	-3.7%
Venezuela	670	620	680	700	680	-2.9%
Algeria	1,060	980	990	990	1020	3.0%
Libya	1,200	1,120	1,050	900	760	-15.6%
Angola	1,200	1,170	1,170	1,140	1,160	1.8%
Nigeria	1,600	1,500	1,480	1,370	1,490	8.8%
Iran	3,830	2,550	2,590	2,580	2,580	0.0%
Kuwait	2,715	2,620	2,640	2,610	2,690	3.1%
U.A.E.	4,200	2,960	2,980	3,010	3,040	1.0%
Iraq	4,800	4,280	4,290	4,460	4,430	-0.7%
Saudi Arabia	11,500	10,170	10,270	10,380	10,430	0.5%
<b>Total OPEC</b>	<b>33,415</b>	<b>28,510</b>	<b>28,690</b>	<b>28,720</b>	<b>28,850</b>	<b>0.5%</b>

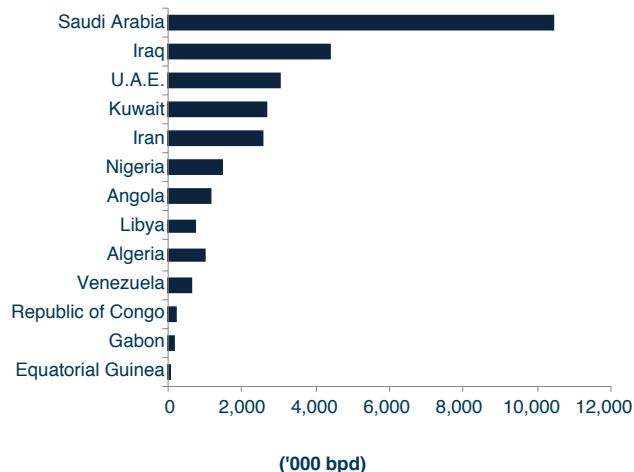
Source: Bloomberg

**Figure 1: World Oil Production**



Source: OPEC, AlJazeera Capital Research

**Figure 2: OPEC May Oil Production**



Source: Bloomberg

## Crude oil demand

### Global

- OPEC estimates 3.4 mbpd increase in global consumption in FY22, 0.3 mbpd lower than previous estimate due to the adverse impact of geopolitical tension in Eastern Europe and COVID-19 restrictions. IEA estimates global oil demand to increase by 1.8 mbpd to 99.4 mbpd in FY22. As per EIA, global consumption of petroleum and liquid fuels is forecasted to average at 99.6 mbpd in FY22 (+2.2 mbpd Y/Y) and increase further by 1.9 mbpd Y/Y in FY23.
- Global demand for petroleum and liquid fuels stood at 97.4 mbpd in April, indicating a rise of 2.1 mbpd Y/Y, as per EIA.

### OPEC

- OPEC's crude demand for FY21 was revised up by 0.1 mbpd to 28.2 mbpd, an increase of 5.0 mbpd Y/Y.
- OPEC demand for FY22 is estimated to grow 0.8 mbpd Y/Y to 29.0 mbpd (0.1 mbpd higher than previous estimate).

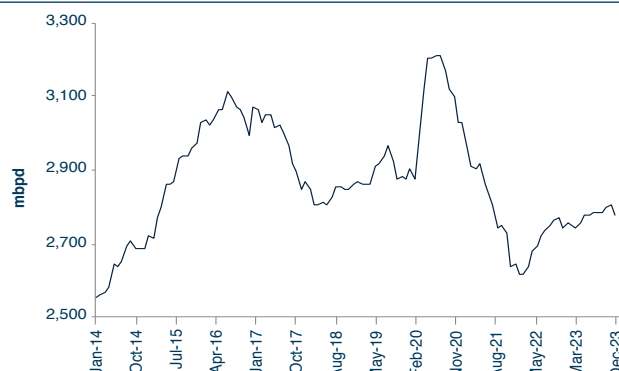
## Inventory

- OECD industry stock fell 3.0 mb to 2,626 mb in March; initial data for April showed that industry stocks increased by 5.3 mb, according to IEA.
- EIA forecasts OECD inventories to stand at 2.74bn barrels by end-FY22 and at 2.78bn by end-FY23.
- Natural gas inventories in the US stood at 1.6tn cu. ft. as of April 2022. EIA estimates inventories to increase to 2.0tn cu. ft. by May 2022 and rise thereafter to 3.4tn cu. ft. by the end of October.

## Price outlook

- Brent spot prices averaged at USD 105 per barrel in April, as per EIA. The prices are forecasted to average at USD 107 per barrel in Q2-22, at USD 103 per barrel in H2-22, and at USD 97 per barrel in FY23.
- Morgan Stanley forecast crude oil price to average at USD 130 per barrel in Q3-22 and to USD 120 per barrel in Q4-22. The price forecast for FY23 stood at USD 100 per barrel.
- EIA expects natural gas prices at Henry Hub to average at USD 8.59/mn Btu in H2-22 and at USD 4.74/mn Btu in FY23.

Figure 3: OECD Monthly Oil Inventories



Source: US EIA, AlJazira Capital Research

Table 4: World Oil Demand and Supply

(mbpd)	FY21				FY22E				FY21	FY22E	FY23E
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<b>World Crude Oil &amp; Liq. Fuels Supply</b>											
OPEC Supp.	30.34	30.88	32.28	33.10	33.75	34.27	34.75	35.02	31.66	34.45	35.04
Non-OPEC Suppl.	62.27	63.81	64.35	65.17	65.08	65.00	65.70	65.96	63.91	65.44	66.56
<b>Total World Supply</b>	<b>92.62</b>	<b>94.68</b>	<b>96.63</b>	<b>98.28</b>	<b>98.83</b>	<b>99.27</b>	<b>100.45</b>	<b>100.98</b>	<b>95.57</b>	<b>99.89</b>	<b>101.60</b>
<b>World Crude Oil &amp; Liq. Fuels Cons.</b>											
OECD Cons.	42.45	44.08	45.82	46.80	45.64	45.23	46.22	46.61	44.80	45.93	46.30
Non-OECD Cons.	51.83	52.25	52.58	53.69	53.09	53.37	53.96	54.28	52.59	53.68	55.25
<b>Total World Cons.</b>	<b>94.28</b>	<b>96.33</b>	<b>98.40</b>	<b>100.48</b>	<b>98.73</b>	<b>98.60</b>	<b>100.18</b>	<b>100.88</b>	<b>97.39</b>	<b>99.61</b>	<b>101.55</b>
OECD Comm. Inventory (mn barrels)	2,908	2,864	2,745	2,634	2,619	2,694	2,746	2,744	2,634	2,744	2,778
OPEC Surplus Crude Oil Prod. Cap.	2.49	2.12	2.15	2.03	1.98	n/a	n/a	n/a	2.20	n/a	n/a

Source: EIA STEO May 2022, AlJazira Capital Research

- The gap between crude consumption and supply is estimated to increase to 0.67 mbpd in Q2-22 (higher supply than consumption) from 0.10 mbpd in Q1-22 (higher supply than consumption).
- OECD's crude inventories are expected to be at 2.69bn barrels in Q2-22, higher than 2.62bn in Q1-22.

## Petrochemical sector news

- **Rabigh Refining and Petrochemical Co. (Petro Rabigh)** announced the issuance of the prospectus for its capital increase through a SAR 8.0bn rights issue. The company plans to increase its capital by 90.8% to SAR 16.7bn from SAR 8.8 billion by offering 795.0mn shares at a nominal value of SAR 10 each. (Source: Argaam)
- **Saudi Aramco** plans to offer a 30.0% stake in its trading arm, Aramco Trading Co., in an IPO, according to a Bloomberg report. The trading unit would be evaluated at more than USD 30.0bn. The oil giant is working with banks, including Goldman Sachs Group, JPMorgan Chase & Co., and Morgan Stanley, to study the potential listing of Aramco Trading. (Source: Argaam)
- Methanex Corp. lowered its Asian contract price (ACP) for June to USD 480 per ton, a decline of USD 40 M/M. (Source: Argaam)
- **Saudi Basic Industries Corp. (SABIC)** announced local urea and diammonium phosphate (DAP) fertilizers prices for June 2022. In June, SABIC maintained the local urea prices M/M at SAR 1,913 per ton. (Source: Argaam)
- **Sahara International Petrochemical Company (Sipchem)** announced the scheduled periodic Turnaround maintenance of International Acetyl Company (IAC), an affiliate of Sipchem, which will enhance the plant's reliability and allow IAC to achieve their future operational plans. This scheduled turnaround maintenance of IAC Plant will start on June 2 2022, and last for three weeks. (Source: Argaam)
- **Alujain Holding Corp.**'s shareholders approved the company's dividend policy for FY22 and FY23. The company aims to pay a cash dividend at 10% of the paid-in capital or SAR 1 a share minimum for each year. (Source: Argaam)
- **Saudi Industrial Investment Group (SIIG)** completed the sale of the fractional shares resulting from its capital increase to acquire National Petrochemical Co. (Petrochem). SIIG added that it deposited the net cash proceeds in the accounts of the eligible shareholders proportionate to their respective fractional entitlements.
- The Japanese engineering company JGC Holdings Corporation announced that its subsidiary, JGC Arabia Limited, was awarded a contract by **Saudi Aramco** to carry out engineering and construction work for the central processing facilities in Zuluf fields. (Source: Argaam)
- Group Five Pipe Saudi Co. was awarded a contract valued at SAR 145.3mn, including value-added tax, by **Saudi Aramco**. Under the contract, Group Five will manufacture and supply **spiral-welded steel pipes** for a Saudi Aramco's project. (Source: Argaam)

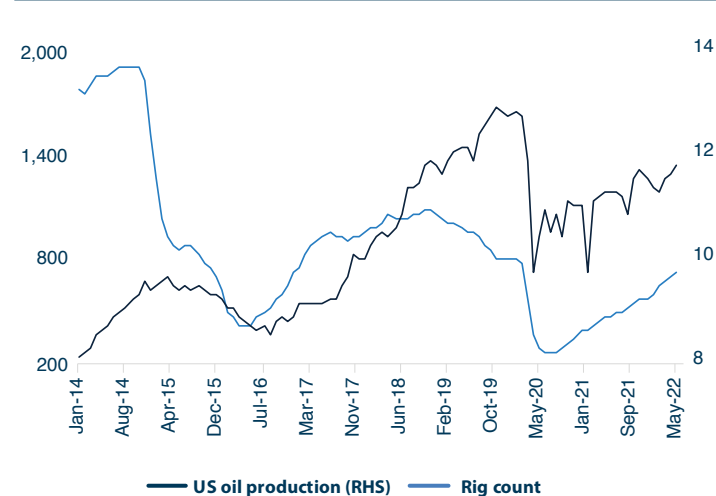
**Table 5: KSA Petrochemical Companies Key Metrics**

Company	Net profit (TTM; SAR mn)	P/E	P/B	EV/ EBITDA	DPS (SAR)	Dividend yield	YTD returns
<b>SABIC</b>	24,709.8	13.9x	1.8x	8.7x	4.0	3.5%	-1.2%
<b>TASNEE</b>	1,337.8	9.2x	1.3x	High	-	-	-8.1%
<b>YANSAB</b>	1,394.0	22.0x	2.1x	12.1x	3.0	5.5%	-20.8%
<b>SABIC Agri-Nutrients</b>	7,318.3	9.6x	3.9x	9.0x	4.3	2.9%	-16.8%
<b>Sipchem</b>	4,259.2	9.2x	2.5x	7.1x	2.3	4.2%	27.6%
<b>Advanced</b>	808.4	18.8x	3.9x	16.6x	2.5	4.3%	-16.9%
<b>KAYAN</b>	2,110.4	12.4x	1.6x	9.1x	-	-	1.9%
<b>SIIG</b>	1,065.7	12.9x	1.8x	-	1.5	4.9%	-2.1%
<b>Nama Chemical</b>	50.8	19.7x	2.7x	15.1x	-	-	32.1%
<b>Chemanol</b>	316.8	10.2x	2.7x	6.7x	-	-	22.2%

Source: Bloomberg, Argaam, Aljazira Capital Research

### US oil and gas developments

Figure 4: US Oil Production versus Rig Count

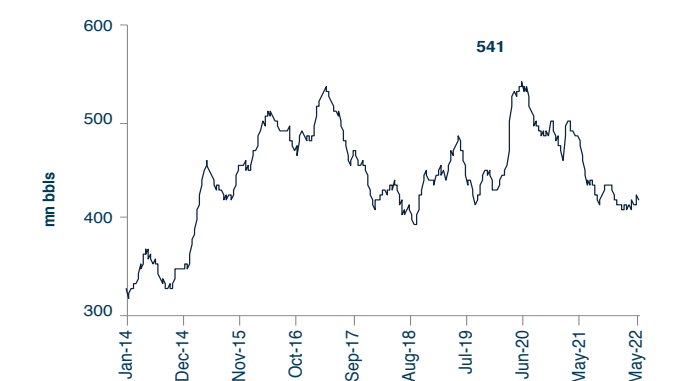


Source: US EIA, AlJazira Capital Research

US oil production averaged 11.84 mbpd in May 2022. Production rose 1.8% M/M from 11.63 mbpd in April while increased 4.5% Y/Y from 11.33 mbpd in May 2021.

In the week ended May 27, the rotary rig count in the US stood at 727 (down 1 W/W). The average number of rigs rose 4.2% M/M in May vis-à-vis a rise of 4.2% in April. The average rig count was up 58.5% Y/Y in May. As on May 27, of the total 727 rigs, 574 (up 2 W/W) were used to drill for oil and 151 (up 1 W/W) for natural gas. Oil exploration surged 59.9% Y/Y in the US, while gas exploration increased 54.1% Y/Y.

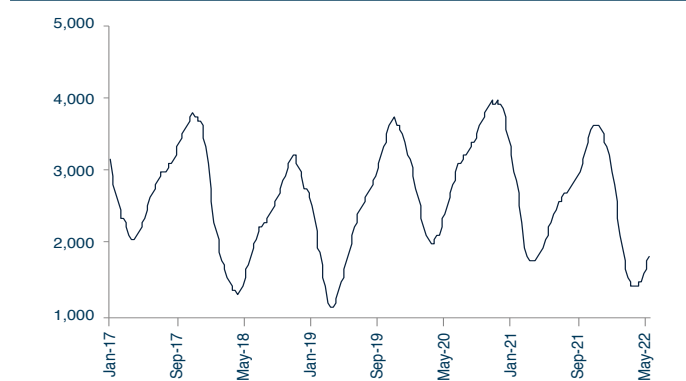
Figure 5: US Weekly Oil Inventories



- US weekly oil inventories fell 0.2% W/W to 419.8mn barrels for the week ended May 20. On M/M basis, inventories were up 1.3%.

Source: US EIA, AlJazira Capital Research

Figure 6: US Weekly Natural Gas Storage

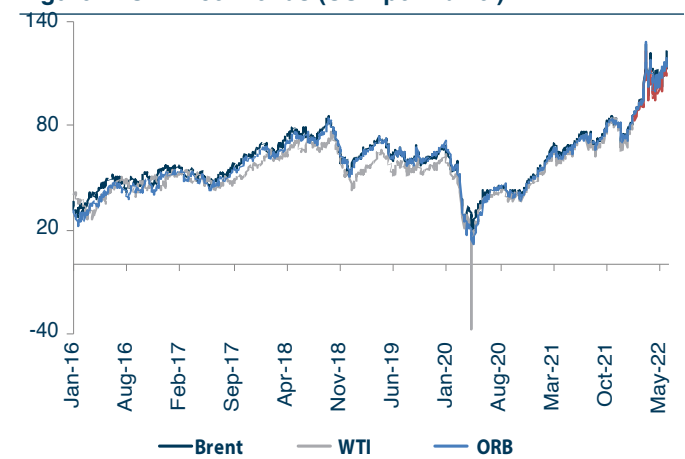


- US weekly natural gas storage increased 4.6% W/W to 1,812 bcf in the week ended May 20. On M/M basis, natural gas storage increased 21.6%.

Source: US EIA, AlJazira Capital Research

### Price Trend: Oil, Natural Gas & Petrochemicals Products

Figure 7: Oil Price Trends (USD per Barrel)



Source: Reuters Eikon, AlJazira Capital Research

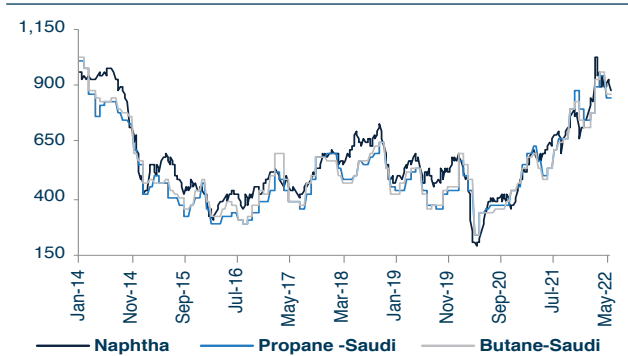
Figure 8: Henry Hub Natural Gas (USD per MMBTu)



Source: OPEC, AlJazira Capital Research

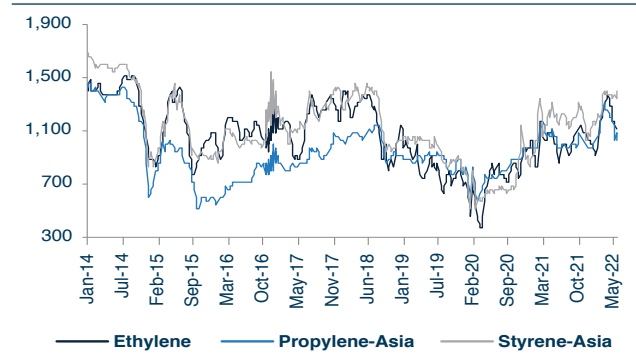


**Figure 9: Feedstock Price Trends (USD per Ton)**



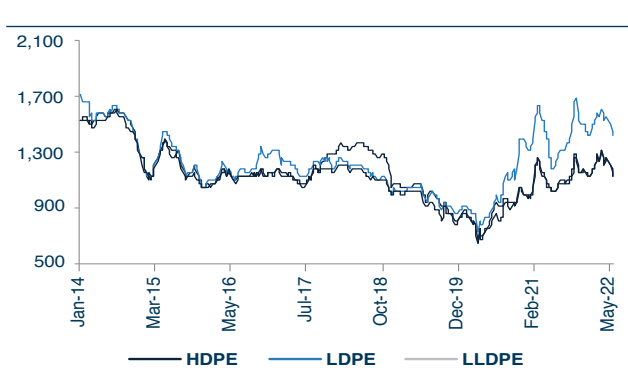
Source: Argaam, AlJazira Capital Research

**Figure 10: Basic Petchem Price Trends (USD per Ton)**



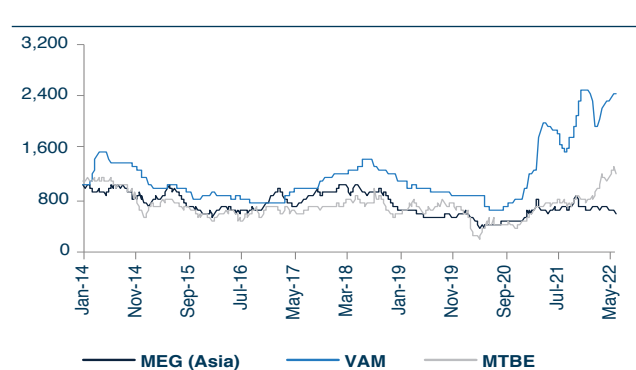
Source: Argaam, AlJazira Capital Research

**Figure 11: Polyethylene Price Trends (USD per Ton)**



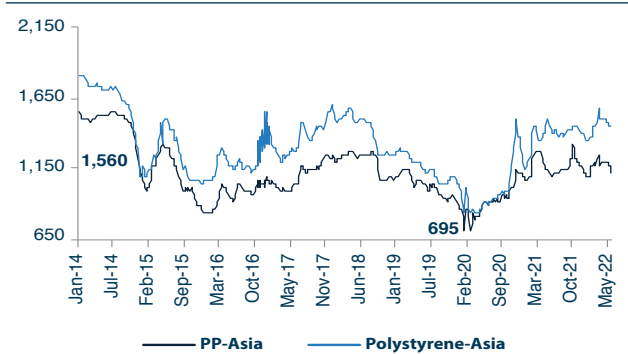
Source: Argaam, AlJazira Capital Research

**Figure 12: Intermediates Price Trends (USD per Ton)**



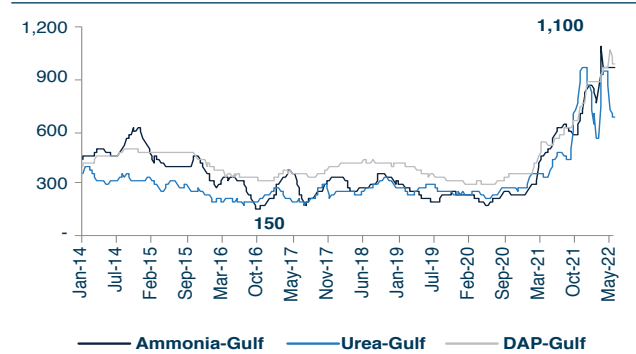
Source: Argaam, AlJazira Capital Research

**Figure 13: Polypropylene & Polystyrene**



Source: Argaam, AlJazira Capital Research

**Figure 14: Ammonia, Urea & DAP**



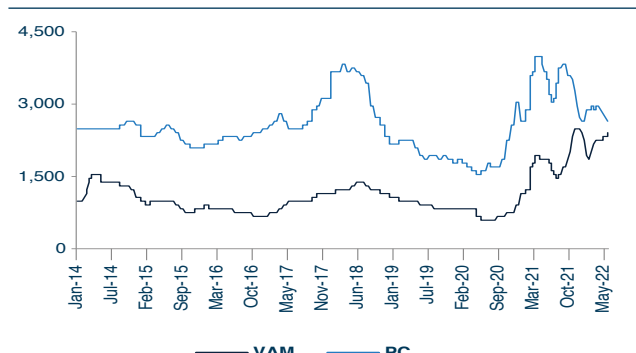
Source: Argaam, AlJazira Capital Research

**Figure 15: Methanol-China (USD per Ton)**



Source: Argaam, AlJazira Capital Research

**Figure 16: PC-VAM**



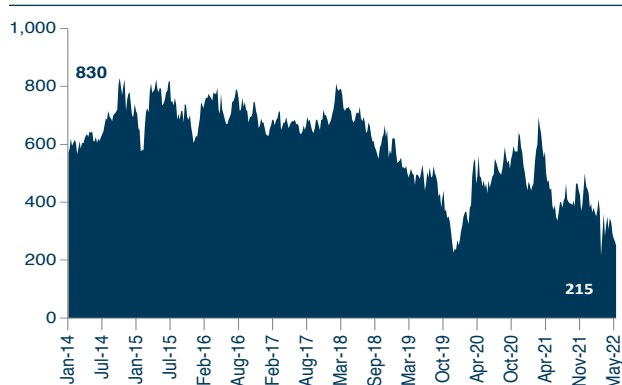
Source: Argaam, AlJazira Capital Research



## Petchem Spreads Trend

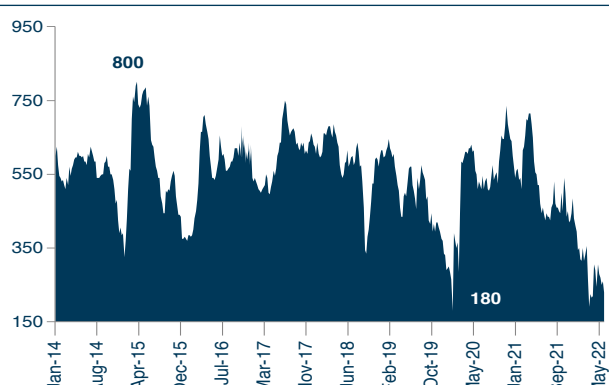
- Naphtha prices averaged at USD 905 per ton in April, down from USD 990 per ton in March.
- Polypropylene average prices inched down to USD 1,191 per ton in April from 1,203 per ton in March.
- The HDPE-naphtha spread increased to USD 330 per ton in April as against USD 285 per ton in March.
- The PP-naphtha spread expanded to USD 286 per ton from USD 213 per ton during the previous month.
- The PP-propane spread fell to USD 251 per ton in April from USD 308 per ton in March.
- The PVC-EDC spread rose to USD 753 per ton in April from USD 671 per ton in March.
- The polystyrene-benzene spread increased to USD 360 per ton in April from USD 346 per ton in March.
- The HDPE-ethylene spread plunged and stood at -USD 78 per ton in April compared to -USD 18 per ton in March.
- PP-butane spread declined to USD 231 per ton in April from USD 283 per ton in March.
- LDPE-naphtha spread gained 6.3% M/M to USD 638 per ton, while LDPE-ethylene fell 22.7% to USD 230 per ton in April.
- LLDPE-naphtha spread rose 11.8% M/M to USD 333 per ton, while LLDPE-ethylene spread was up -USD 75 per ton in April versus -USD 5 per ton in March.

Figure 17: Naphtha- HDPE



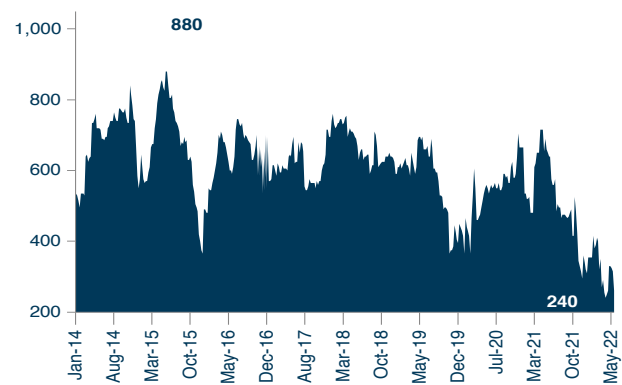
Source: Argaam, AlJazira Capital Research

Figure 18: Naphtha- PP



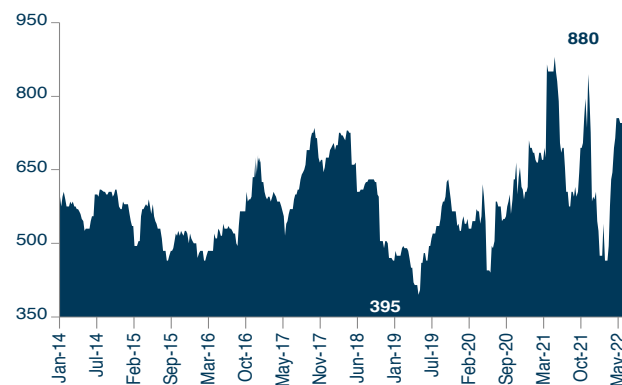
Source: Argaam, AlJazira Capital Research

Figure 19: Propane (Saudi)- PP



Source: Argaam, AlJazira Capital Research

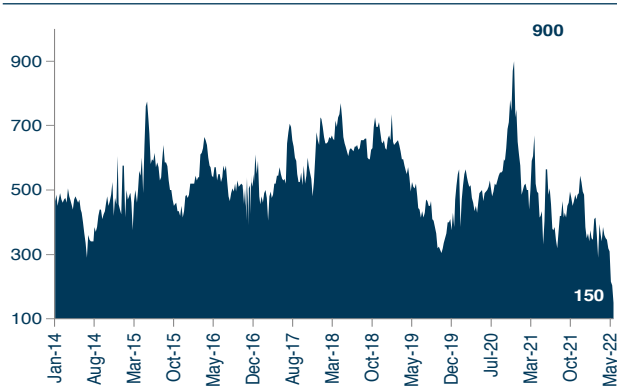
Figure 20: EDC- PVC



Source: Argaam, AlJazira Capital Research

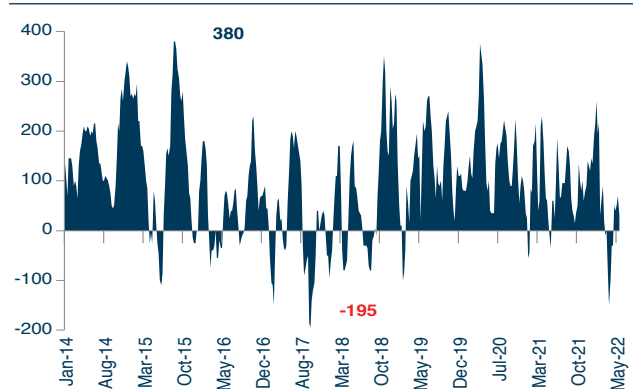


Figure 21: Benzene- Polystyrene



Source: Argaam, AlJazira Capital Research

Figure 22: Ethylene- HDPE



Source: Argaam, AlJazira Capital Research

Table 6: Petrochemical Products by Saudi Petrochemical Companies

Company	Finished Products
<b>SABIC</b>	Polyethylene, polypropylene, polystyrene, ethylene glycol (MEG), methyl tert-butyl ether (MTBE), benzene, urea, ammonia, PVC, and PTA
<b>SABIC Agri- Nutrients</b>	Urea, ammonia
<b>YANSAB</b>	Polyethylene, polypropylene, MEG, MTBE, and benzene
<b>Tasnee</b>	Polyethylene, polypropylene, and propylene (TiO <sub>2</sub> )
<b>Saudi Kayan</b>	Polyethylene, polypropylene, MEG, polycarbonate, and bisphenol A
<b>Petro Rabigh</b>	Polyethylene, polypropylene, propylene oxide, and refined petroleum products
<b>Sahara Petrochemicals (Sipchem)</b>	Polyethylene, polypropylene, Methanol, butanol, acetic acid, and vinyl acetate monomer
<b>Saudi Group</b>	Styrene, benzene, cyclohexene, propylene, polyethylene, polypropylene, and polystyrene
<b>Advanced</b>	Polypropylene
<b>Alujain</b>	Polypropylene
<b>CHEMANOL</b>	Formaldehyde – improvers concrete
<b>NAMA</b>	Epoxy resin, hydrochloric acid, liquid caustic soda, and soda granule
<b>MAADEN</b>	Ammonia and DAP

Source: Argaam Plus



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DIVISION

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TERMINOLOGY

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2. **Underweight:** This rating implies that the stock is currently trading at a premium to its 12 months price target. Stocks rated "Underweight" would typically decline by over 10% from the current price levels over next twelve months.
3. **Neutral:** The rating implies that the stock is trading in the proximate range of its 12 months price target. Stocks rated "Neutral" is expected to stagnate within +/- 10% range from the current price levels over next twelve months.
4. **Suspension of rating or rating on hold (SR/RH):** This basically implies suspension of a rating pending further analysis of a material change in the fundamentals of the company.

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